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PSC RELEASES CONSULTANT'S REPORT ON LG&E, KENTUCKY UTILITIES EARNINGS SHARING MECHANISM

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FRANKFORT – The Kentucky Public Service Commission today received a consultant's report on the alternative rate-making mechanism used to adjust rates for Louisville Gas & Electric Company and Kentucky Utilities Company. The report has been filed into the record of the PSC's case investigating the rate-setting mechanism.

The report, prepared by the Barrington-Wellesley Group, will assist the PSC in evaluating how rates for LG&E and KU – Kentucky's two largest electric utilities - should be determined in the future. Parties to the case will have the opportunity to comment on the report and to ask questions of the authors when the PSC conducts a hearing in the case.

The alternative rate-making procedure used by LG&E and KU, known as an Earnings Sharing Mechanism or ESM, was implemented three years ago. The current formula is in effect through this year.

An ESM differs from traditional utility ratemaking by departing from the concept of maintaining a fixed rate of return for utility shareholders. Instead, an ESM seeks to reward companies for doing business efficiently while sharing the rewards with ratepayers.

If the companies' earnings rise above a 12.5 percent return on equity, LG&E and KU can retain 60 percent of the excess, but must rebate 40 percent to customers. Conversely, if earnings fall below 10.5 percent, the LG&E and KU are permitted to recover only 40 percent of the shortfall by imposing a surcharge on customers.

The consultant's report addresses a number of issues relating to how the ESM is calculated. It is available on the Web at:

http://psc.ky.gov/agencies/psc/hot_list/m_audit/audit_idx.htm

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